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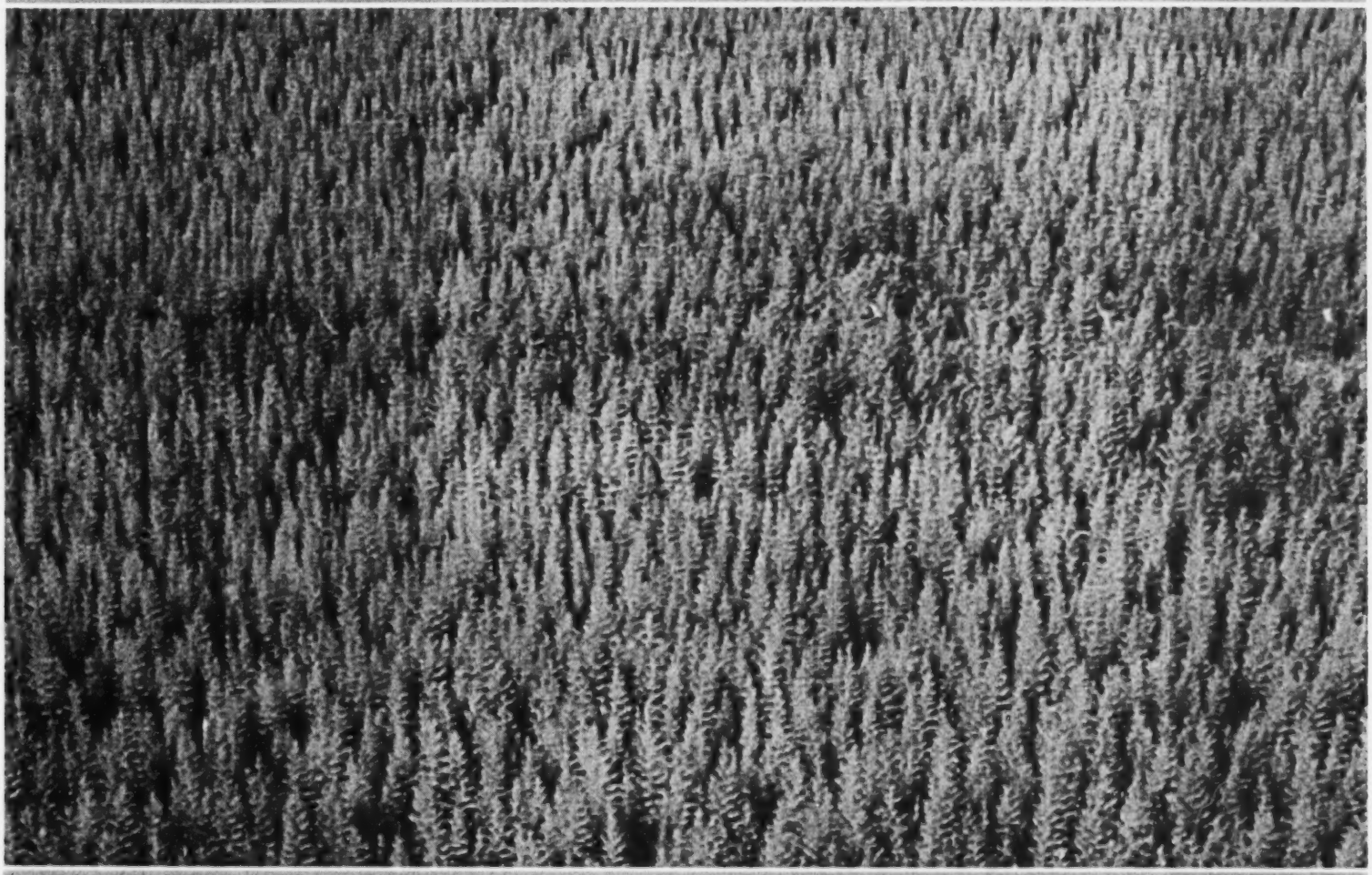
THE FORESTRY REVITALIZATION PLAN

B.C. Heartlands Economic Strategy - Forests



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Message from the Premier of British Columbia

Our government pledged to deliver a new era of prosperity and certainty for forest workers, companies and communities. Our goal is to revitalize our forest industry and make it a global leader, renowned for the excellence of its products and practices.

Forestry is B.C.'s number one industry, and revitalizing our economy must include transforming our forest sector. Three-quarters of all of our heartlands communities depend on forestry for their lifeblood. And revenues from our public forests are the single most important contributor to every British Columbian's standard of living, whether they live in Vancouver or Vanderhoof.

Changes are clearly required to create new opportunities for forest workers, companies and communities. Although the softwood lumber dispute has confirmed the need for change, the challenges and pressures our industry is facing today began many years ago.

This forestry plan outlines a comprehensive course of action that will rebuild stability and open up new opportunities for British Columbians. Our working forest land base will create the certainty needed by investors, forest communities and workers. Our new Forest and Range Practices Act will provide sound science and common sense in forest management, which will be an example to the world.

These and other measures outlined in the following pages will restore the B.C. advantage to our forest industry, strengthen the economy of our heartlands, and provide the foundation for the public services that are essential to opening up a brighter future in communities throughout our province.

Gordon Campbell, Premier

Message from B.C.'s Minister of Forests

British Columbia is a world leader in the practice of forestry. Thanks to our vast and plentiful natural resource, we have emerged as the single largest exporter of softwood in the world. In addition, we have also emerged as a leader in environmental protection and sustainable forest management.

Forestry is the single most important economic contributor to our people and our province. Due to its scope and scale, forestry will remain the most important engine of our economy well into the foreseeable future.

However, over much of the last decade, the forest sector has declined sharply. The impact of this decline has not been limited to private industry or shareholders, but has affected forest workers and forest communities directly, and every person in this province indirectly.

How did we allow our forest sector to get into such a precarious position? The answer is partly in outdated regulations that have limited the forest sector's ability to react to the rapid pace of change here and around the world. Sadly, our regulations have been unable to provide widespread or continued community stability, especially in recent years. As well, the manner in which our forest industry and our province developed often unintentionally limited opportunities for new participants in the sector, constraining entrepreneurism and discouraging innovation.

The solution is clear. We must open up the forest sector to new opportunities, new participants and new ideas. We must update forestry regulations. We must undertake comprehensive change with a singular purpose: to revitalize British Columbia's forest sector.

By doing so, we will reinvigorate the economic foundation of the province and thereby ultimately improve the quality of life of every British Columbian.

Michael de Jong, Minister of Forests

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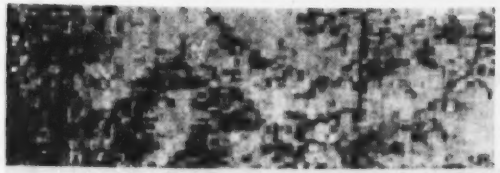


British Columbia's forest sector has been the single most important contributor to the standard of living in this province for more than 100 years. Over that time, our province and the industry have changed considerably – and in today's world we are struggling to keep pace. Fundamental changes are urgently needed so that B.C.'s number one industry can continue to provide benefits to the people of this province.

The current reality

The one constant in recent decades has been B.C.'s dependence on foreign markets to buy our forest products. Customers outside this province buy almost 90 per cent of our forest products – more than $14 billion worth were exported in 2001 – which make up half of all goods exported out of B.C. each year.

British Columbia is not the only producer of forest products. Other suppliers of wood and alternative building products like steel and plastics are aggressively pursuing our customers.

B.C. has not been able to fully meet these increased competitive pressures, and the impact has been widespread:

- 27 mills have closed permanently, and 13,000 forest workers have lost their jobs in B.C. since 1997.
- Annual revenues to government from forestry have fallen by more than $600 million since 1997, limiting funds for public services like health and education.
- Between 1996 and 2000, B.C. forestry industry's average return on capital employed was just 3.3 per cent – less than half the 7.1 per cent earned in the rest of Canada in the same period, and well below the returns needed to attract reinvestment to keep the industry competitive.

The traditional approach

The province began regulating commercial activity in Crown forests in 1865. Since then, successive governments have developed new policies and regulations in response to shifting needs and demands. When new rules caused unforeseen problems, other well-intentioned regulations or new programs were added, which sometimes created even more complications. Eventually, government set the price of timber, decided who had cutting rights, and dictated where timber was processed and into what products.

Over decades, these policies and the forest sector's response to market conditions and other realities have shaped B.C.'s forest sector into one with limited opportunities for new participants and little incentive for finding innovative ways of using wood. As well, various regulations evolved into restrictions on normal business decisions that acted as a drag on the entire sector, hampering reinvestment and making the sector vulnerable to changing conditions.

The ultimate cost of this was borne by the public, as the forest resource could generate less revenue for government services. And communities and workers

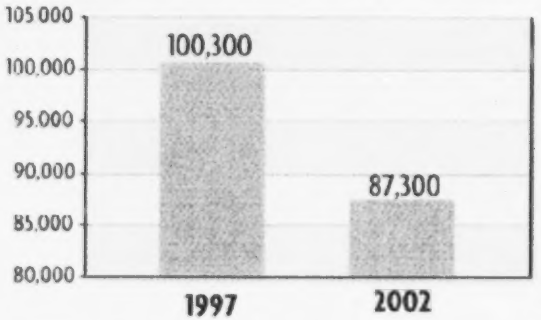
began to experience greater insecurity as the forest industry became less competitive and more unstable.

Opening up to a brighter future

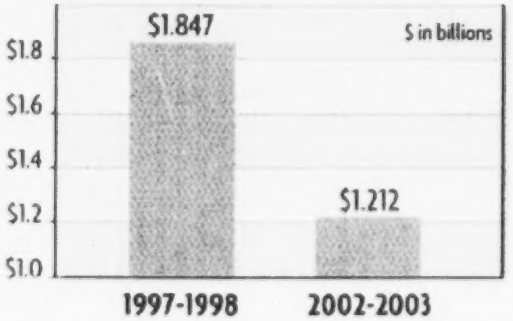
Today, government is taking a new approach by introducing comprehensive reforms that will open up opportunities to more British Columbians. These reforms will help build a more diverse forest sector that will allow timber to flow to its highest and best use within B.C. As the forest sector becomes more able to compete successfully in global markets, it will create more stability for B.C.'s forest-based communities and more opportunities for those living in them.

In addition to retaining public ownership of our forests and ensuring strict environmental standards are met, this new approach will enable the forest sector to build on its strengths and respond to domestic and global change. The result will be the long-term sustainability of the forest, the forest sector, and the benefits they deliver to every person in British Columbia.

13,000 Jobs Disappeared Between 1997 and 2002...



...While Forest Revenues Shrunk by One-Third



British Columbia is a world leader in sustainable forest practices. High standards for environmentally sensitive forestry were set in the Forest Practices Code of British Columbia Act in 1995. But the code's costly, prescriptive approach has prevented industry from adopting new sustainable forestry practices as quickly and cost-effectively as possible.

Government is committed to setting the standard for environmentally sensitive forestry in the years to come, and to acting on its New Era promise to adopt a scientifically based, principled approach to environmental management to ensure sustainability, accountability and responsibility.

Action: Central to this mission is the introduction of the Forest and Range Practices Act, which governs forestry operations in B.C.'s public forests. The act requires industry to meet clear standards for a range of values, from water quality to wildlife, and from old-growth stands to soils. It maintains or exceeds the standards set by the Forest Practices Code, which it replaces. But it allows flexibility in meeting those standards. This flexibility, combined with ongoing investments in research, and an improved role for professional foresters, agrologists, biologists and engineers, ensures B.C.'s forest practices remain world class.

Benefits: The Forest and Range Practices Act is described as "results based" because its focus is on-the-ground results, not costly, time-consuming paperwork. It introduces more efficient planning by eliminating a number of separate plans and steps. For example, companies must now complete one comprehensive forest stewardship plan instead of three operational plans. Before companies can cut a single tree, they must also produce site plans that are available for public and First Nations scrutiny.

Compliance and enforcement

As part of forest stewardship plans approved by government, companies must outline how they will meet environmental standards. In this way, they can be held accountable for achieving the results they promise. A team of specialized staff at the Ministry of Forests will conduct thousands of inspections every year.

In cases where there is an unacceptable risk of damage occurring, the act gives government the power to issue stop-work orders to prevent environmental damage.

In addition, the Forest Practices Board provides objective, independent investigations on forest practices. It investigates complaints, participates in appeals and issues special reports. The board recently reported that responsible forest practices once considered outstanding are becoming standard operating procedures in B.C.

Forests for the future

Certification

B.C. has emerged as one of North America's leaders in forest certification. Almost every major forest products company has met or is pursuing the requirements of the International Standards Organization's environmental management system, or sustainable forest management certification by the Canadian Standards Association, Forest Stewardship Council or Sustainable Forestry Initiative.

Logging levels

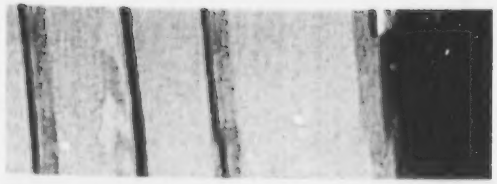
Each year, B.C. harvests only about one-third of one per cent of total forested land – less than one per cent of the area supporting the current allowable annual cut. How many trees can be cut in a year is decided by the province's chief forester, who makes allowable annual cut determinations for timber supply areas and tree farm licences throughout the province. Each of these decisions is based on careful and scientific analysis.

Protected areas

More than 12 per cent of B.C.'s land has been set aside in parks or protected areas, including about four million hectares of old growth.

Reforestation

Provincial law requires logged areas to be reforested and managed until the new forests are well-established. Unlike many other places, B.C. uses native species – none of them genetically modified – on all regenerated areas of public land. In 2002, B.C. planted its five billionth tree.



B.C.'s current system of licensing companies and individuals to cut timber on publicly owned land dates back to the 1940s. In exchange for harvesting rights, licensees pay rents as well as fees, called stumpage, for the timber they cut. They are also required to undertake various forest management tasks, such as planning, road building, and reforestation.

British Columbians benefit from the resulting jobs and government revenue, while companies can harvest timber to sustain their business and so are motivated to invest in mills and forest management. However, the system has also shielded industry from market forces and has led to a high-cost structure, especially for the coastal industry.

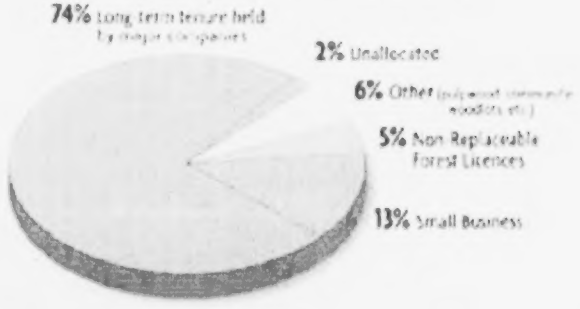
Furthermore, nearly all of the province's logging rights were awarded decades ago – about 75 per cent of the harvest from provincial land is allocated to major companies. This makes it difficult for new operators to get involved in the sector, no matter how innovative or efficient they may be. Without their ideas and fresh creativity, B.C. has not always been able to realize the fullest benefit from valuable public timber. Sometimes, for example, timber has continued to be manufactured into simple, lower-value products instead of into new, potentially more valuable ones. This has resulted in many lost opportunities for a strong, diverse forest sector and related benefits for workers, communities and the public.

Tenure reallocation

Under the current system, only small amounts of timber are available to distribute to new participants in the forest sector. Much of this unallocated timber has been returned to the province from licensees as penalties for failing to comply with certain rules, or for transferring parts of their licences. But most other licensees, wishing to avoid such penalties, have complied with uneconomic regulations like timber processing restrictions, contributing to the weakness of the forest sector.

Action: Through legislation, licensees will be required to return about 20 per cent of their replaceable tenure to the

Current Allocation of AAC



Crown. About half of this allowable annual cut will then be redistributed to open up opportunities for woodlots, community forests and First Nations. The other half will be sold at auction to increase the portion of timber going through open markets, and to assist in setting stumpage rates. *(For more on timber pricing, see "Setting a Fair Price for the Public Resource," page 20.)*

Timber will be redistributed only from firms holding or controlling a large amount of timber in replaceable, long-term licences. The first 200,000 cubic metres held by any firm will be exempt from the redistribution plan, reducing the effect on small-scale operators.

Licensees have, over time, invested money and taken risks to develop tenures (for example, they have invested in planning, roads, bridges and so on). Licensees will be fairly compensated, as the law requires, for harvesting rights returned to the Crown. The determination of compensation will take into account the new stumpage system and changes in regulatory requirements of the Forestry Revitalization Plan. Government has set aside one-time funding of $200 million to reflect the estimated costs of this compensation.

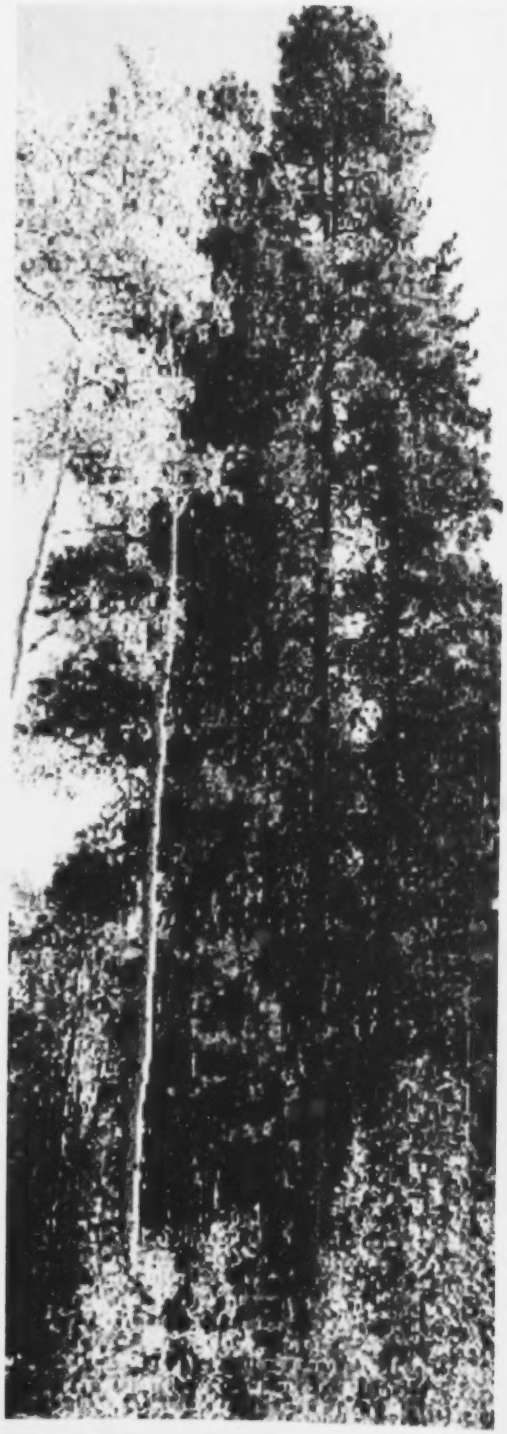
Benefits: Reallocating timber rights will help diversify British Columbia's forest economy over time, increasing the number of tenure holders and expanding the variety of economic uses to which B.C.'s public forest lands are directed. This will open up opportunities for new entrants with innovative ideas for forest management or processing. This will create jobs and spinoff benefits for communities over the longer term and help reinvigorate the forest sector as a whole. A stronger, more diverse forest sector will be better able to compete in today's global markets, better able to offer new hope for communities and workers, and better able to make long-term contributions to the public treasury and serve as a source of prosperity for British Columbians. New entrants will help keep B.C. a world leader in forestry and also ensure our province remains a supplier of first choice to customers around the world.

Along with other policy reforms, reallocation of tenure will help ensure that more public logs flow to open markets, where they can be directed to the highest value and best use within the province.

This change will also help create a more sensible pricing system for public timber, ensuring British Columbians receive fair value for the use of their forest resources.

Woodlots and community forests

Area-based woodlots and community forests are small- to medium-scale tenures typically operated by individuals, First Nations, or municipal or regional governments. Frequently characterized by innovative approaches, these operations often hire locally and ensure local management and development of forest resources. They can also be a source of timber for value-added manufacturers. However, there are relatively few of these tenures available under the current system.



Action: Through the reallocation of replaceable tenure, more timber will be available to woodlot and community forest licensees, and the programs will be expanded.

Expanding the volume of timber available to these small-scale tenures will create more opportunities for small business and community-based economic development, allowing communities to diversify their forest economies.

Benefits: Allocating more timber to woodlots and community forests will provide communities with a more diversified economic base. They will thus be better able to adjust to other changes in B.C.'s forest policies and play a direct role in providing forest sector opportunities for local residents.

Value-added sector

The secondary manufacturing sector, often called the value-added sector, comprises those mills and manufacturing plants that make products from timber or lumber, including log homes, trusses and other construction materials, finished products like windows and doors, and objects like furniture, fine art and components of musical instruments.

Many of these manufacturers do not hold long-term logging rights; they buy wood from others, including major tenure holders and woodlots. However, because of how B.C.'s tenure system developed, and because those who have the most access to timber usually concentrate on serving their established customers, the value-added sector has had difficulties getting the wood it needs.

Previous governments tried to address this issue by creating a system to increase the flow of timber to the value-added sector. Section 21 of the Forest Act, for example, allocated some wood exclusively to the sector through a program managed by the small business forest enterprise program (now the B.C. Timber Sales program). That timber was awarded to applicants on the basis of a company's location and a range of other non-commercial criteria.

These applications are known as bid proposals. And even though they rely on the use of public timber, revenue to the Crown is not a major factor in awarding them.

Even with Section 21, the value-added sector has not had access to as much timber as it says it needs.

Action: Over time, policy changes designed to promote the freer flow of timber will provide B.C.'s value-added manufacturers with more access to timber. These policy changes include reallocation of tenure to market loggers, and removing timber processing restrictions. As well, the value-added sector will be able to bid on the increased volume of wood sold at auction through reallocation.

Since increased volumes will take several years to come fully into effect, government will maintain Section 21 through this transition. This will see a portion of B.C.

timber set aside for the value-added sector, but awards will now go to the highest bidders.

Benefits: These measures should result in a more competitive, more dynamic value-added industry. Maintaining Section 21 during the transition will ensure fair returns to the Crown while also ensuring the most competitive value-added companies have access to the timber they need to build healthy, job-creating businesses.

Small-scale salvage

Small-scale salvagers recover fallen and standing timber left unused by licensees or logging operators. Currently, small-scale salvagers register with BC Timber Sales to get access to this timber. Many small-scale salvagers argue that the program is overly bureaucratic, inefficient, and costly for salvagers and government alike.

Action: The Ministry of Forests will introduce a salvage-based non-replaceable forest licence, which will not require registration with BC Timber Sales and which will be awarded for longer terms than past licences. These licences will be competitively awarded and will entitle the highest bidder to do salvage logging in a particular timber supply area, with other licensees continuing to have overall cutting rights in the same area. As part of a one-year transition, a formal small-scale salvage program will continue to be managed by the Ministry of Forests.

In addition, government will create a tenure that will allow interested communities to participate in management of small-scale salvage. It will also encourage major licensees to be more involved in managing small-scale salvage. A committee of MLAs has also been set up to explore new options for small-scale salvagers.

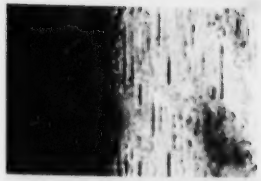
Benefits: These changes will help small-scale salvagers move to a more businesslike, efficient salvage system, allowing them to work to recover more timber and open up more opportunities.

The longer-term salvage-based forest licences will allow more certainty. A competitive bidding process will ensure taxpayers get the fairest return for the use of their public timber, and the new community tenures will allow communities interested in small-scale salvage management to be involved.

The transition period will give salvagers time to develop stronger business relations with licensees, increasing the likelihood that major licensees will turn to small-scale salvagers to help with salvage in the licensees' tenure areas. This will also give small-scale salvagers time to adjust to identifying, planning and scheduling salvage opportunities while government scales back its costly involvement in those activities.

First Nations

British Columbia's First Nations people have historically had limited participation in the forest sector despite their



cultural and historic ties with the land. The province is committed to redressing this situation, as there are strong social and economic reasons for doing so.

In B.C., treaties were not negotiated with the majority of First Nations, which has created uncertainty over land ownership and timber rights. In the absence of treaties, court rulings have identified that the government and industry have an obligation not only to consult with First Nations on decisions that may affect their rights, but also to seek accommodation of their interests.

Parties have increasingly turned to the courts to resolve differences about land use and forestry issues. Considerable time and money have been spent, and opportunities have been lost.

As a result, some companies are reluctant to invest in B.C., fearing that their ability to operate and generate fair profits may be affected by ongoing legal battles and uncertainty.

While tenure has been provided to several First Nations under government's direct awards legislation, and some interim measures agreements have already been signed, it is in all British Columbians' interests that we do more. Increasing First Nations' access to timber will open up opportunities for them to develop local forest resources, create more jobs, and bring more timber to markets.

Action: A portion of the allowable annual cut that is reallocated from existing tenures will be targeted to First Nations who enter into accommodation agreements with the province. These agreements may be negotiated where there are unresolved aboriginal rights and titles issues, as an interim step towards a comprehensive treaty or other form of settlement; they will be pursued where forestry activities on Crown land could affect First Nations' interests.

Ultimately, about eight per cent of the total provincial allowable annual cut will be made available for such arrangements.

As well, the province will develop mechanisms to share a portion of forest revenues with First Nations who wish to enter into these accommodation agreements. Revenues will continue to be generated through the stumpage paid by all licensees.

Benefits: With improved access to timber and forest revenues, First Nations can expand their ability to earn income through forest development on the same terms as other licensees. In addition, the province will continue to work with First Nations to build their forest management and development capacity by:

- Encouraging joint ventures among industry, logging contractors and First Nations.
- Working towards a revitalized forest sector to maximize the value of the opportunities available.
- Working towards long-term certainty by negotiating treaties or other forms of settlement.

Increasing First Nations' participation in the forest sector will allow them to apply their knowledge and increase their skills in creating economic and job opportunities and improving social conditions in communities across the province.

Over time, their forestry operations are also likely to return benefits to non-aboriginal communities, potentially opening up employment and other opportunities.

In addition, these measures will help reduce tension and build investor confidence in the province, and will help to resolve long-standing issues that have hindered economic certainty for all British Columbians.

What is forest tenure?

Most forested lands in B.C. are publicly owned. Under the Forest Act, the Crown is able to grant specific rights to use its forest land via tenure agreements to private interests, called licensees.

Each agreement is unique and may vary in form, extent, and duration, as well as in the forest management duties required of the licensee. Tenures may be replaceable or non-replaceable.

Non-replaceable tenures are for a fixed term and are granted to achieve such goals as stopping the spread of beetle infestation by cutting affected trees.

Replaceable tenures, like tree farm and forest licences, have terms ranging from 15 to 25 years, providing licensees with the long-term security to invest in such things as business planning, forest management and manufacturing. Every five or 10 years, these licences must be updated, or replaced, so they can reflect current government policy. Generally, the replacement licence confers the same rights and obligations as the existing licence.

When a licence is replaced, it is extended for the term of the original licence. If it is not replaced, the existing licence continues to be in effect until it expires.

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In exchange for the right to log portions of B.C.'s public forest lands, the Forest Act requires licensees to abide by various existing regulations. Historically, these included an obligation to log a certain minimum level of timber each year; requirements to process that timber at certain mills (known as appurtenancy) or, more generally, in mills owned by the licensee (known as timber processing requirements); and penalties for transferring any part of a tenure, in addition to restrictions on subdividing tenure licences.

What is the AAC?

The allowable annual cut is the amount of timber from public forest lands that can be logged legally each year, expressed in cubic metres.

The allowable annual cut is determined by the province's chief forester after thorough scientific analysis. It fully reflects the province's high forest management standards for both timber and non-timber resources, and also reflects land-use decisions like the amount of area reserved for parks.

The province's total allowable annual cut is currently 74 million cubic metres, which contains more than 5.5 million cubic metres of recent, temporary increases to help battle the mountain pine beetle epidemic.

These requirements prevent companies from operating efficiently, weakening individual operators and the industry as a whole. They also make it more difficult for new operators with innovative ideas to enter the industry, and prevent logs from flowing to their highest and best use in B.C.

Minimum cut controls

Each licensee is currently required to work within cut control rules that prescribe the minimum and maximum amounts of timber to be logged each year and over a five-year period. Licensees that do not comply with cut requirements may be penalized through the loss of a portion of their allowable annual cut.

The policy of minimum cut control was introduced as part of an effort to dictate a minimal level of ongoing employment for loggers and mill workers, and steady revenue for government through payment of stumpage.

To avoid losing part of their allowable annual cut, licensees must log even when demand and price are low due to depressed markets or oversupply. Introducing more wood into a sluggish market forces prices even lower, driving down the value of B.C. products. In short, licensees can be forced to operate at a loss, and are thereby less stable and more vulnerable to market shocks. A regulation that undermines the industry's strength and ability to operate economically cannot, over the longer term, support the goal of a healthy economy and a prosperous British Columbia.

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The policy of minimum cut control was introduced as part of an effort to dictate a minimal level of ongoing employment for loggers and mill workers, and steady revenue for government through payment of stumpage.

To avoid losing part of their allowable annual cut, licensees must log even when demand and price are low due to depressed markets or oversupply. Introducing more wood into a sluggish market forces prices even lower, driving down the value of B.C. products. In short, licensees can be forced to operate at a loss, and are thereby less stable and more vulnerable to market shocks. A regulation that undermines the industry's strength and ability to operate economically cannot, over the longer term, support the goal of a healthy economy and a prosperous British Columbia.

Action: Cut control rules will be adjusted, allowing licensees to decide when prices and market conditions are suitable for logging. There will be no penalties for failing to cut timber, but licensees will not be able to harvest uncut portions in future periods. There will continue to be maximum cut controls to prevent excessive cutting and ensure sustainable forests for future generations.

Benefit: These changes will increase licensees' competitiveness and so, over the longer term, will benefit the forest sector and those who rely on it. As well, licensees will be better able to respond to market conditions, cutting timber only when it makes economic sense and making the most of an important public resource.

Processing and mill closure policies

For decades, government required licensees to abide by rules on where logged timber is processed. Typically, licensees are required to process wood at their own mills, or at specific mills. In cases where licensees seek permission to close a mill – even one that is losing money – they may be penalized by the loss of part of their timber allocation.

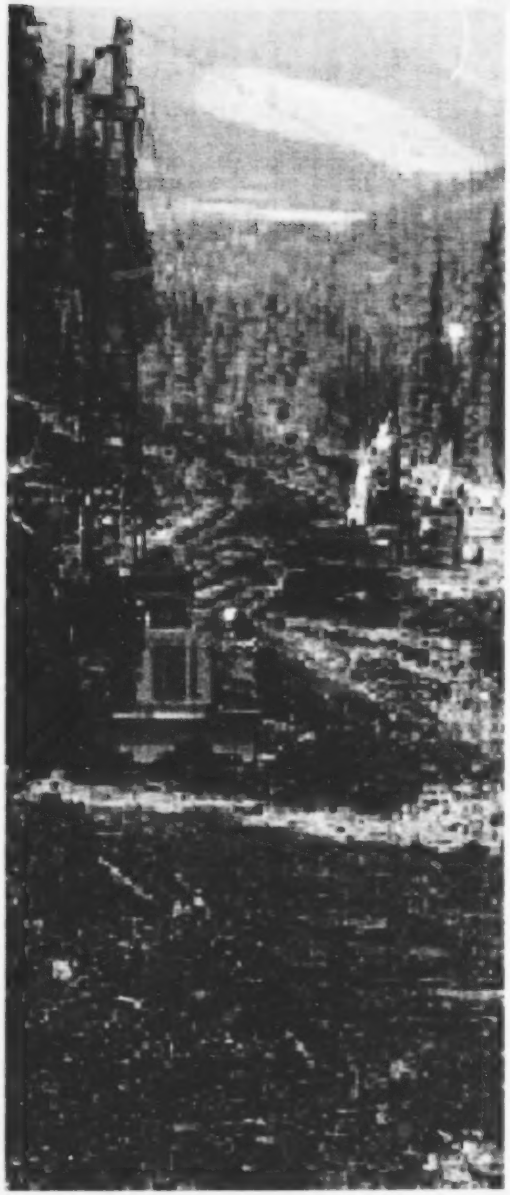
Timber processing rules were introduced in an attempt to create local or regional economic benefits from the timber that was logged. But these regulations led to a series of unintended consequences that hinder the forest sector's ability to make sound, business-based decisions.

Overall, mandatory links between logging and processing impair the ability of licensees to make decisions based on economics or market demand. They are forced to be both loggers and processors, regardless of their interest or ability to be in both distinct businesses.

Forcing licensees to process wood at mills with equipment that is outdated, or at mills that make products that are not in demand, prevents valuable public timber from flowing to other, better uses. As well, it can restrict employment created from the resource.

Some British Columbians view these policies as part of the social contract that forest companies should meet in exchange for the right to log public land. But while these policies may have made sense in a different time with different market conditions, they have *not* shielded today's communities from job loss and economic difficulties. In fact, they serve as a disincentive and impediment for the forest industry, and they undermine the viability and strength that industry needs to continue contributing to British Columbia's economy and standard of living.

Action: Government will eliminate regulations that require licensees to both log and process timber at their own mills. Licensees will be free to sell timber within British Columbia instead of processing it, increasing the flow of timber to other users and the likelihood that timber is processed into higher-value products. Log export restrictions will be maintained on Crown land, ensuring the vast majority of public timber is milled in B.C.



Benefits: Allowing licensees to specialize in areas of business strength will enhance their long-term viability. Some companies may concentrate on harvesting, some may choose to focus on processing timber, and some may remain involved in both aspects of the industry, based on their strengths, efficiencies and analysis of market conditions. While this may lead to rationalization by companies, the freer flow of timber to higher value uses in B.C. will create business opportunities and jobs with other processors.

The freer flow of timber will set the stage for a stronger, more efficient industry that can weather the ups and downs of the global marketplace. It will also create opportunities for entrepreneurs interested in either logging or processing activities without requiring them to engage in both.

Tenure transferability and subdivision

When government issues tenure, it prohibits the licensee from transferring or subdividing it without permission of the Minister of Forests. When permission is granted for transferring tenure, the licensee must give up five per cent of its logging rights without compensation.

Licensees are thus discouraged from transferring or selling their logging rights, even if that timber is surplus or unsuited to their needs, because of a burdensome process and the loss of timber rights in addition to those transferred or sold. These restrictions also keep out new, potentially better or more innovative forest managers, preventing the industry from strengthening itself by diversifying.

At the same time, processors that could make better use of the timber often cannot get access to it and therefore are unable to expand their businesses or create more jobs.

Action: Government will allow forest companies to transfer, subdivide, or sell all or a portion of their licences without suffering a penalty. The Ministry of Forests will continue to review transfers to ensure that control over the timber supply does not become overly concentrated.

Benefits: The public forests will continue to be owned by the Crown, but licensees will be able to transfer their cutting rights to other companies in B.C. more easily. This will open up opportunities for new participants in the industry and also increase the likelihood of timber flowing to facilities that can offer employment by producing higher-value forest products.

Cutting this red tape will also open up the industry to others who may be better or more effective forest managers, ensuring that B.C.'s public forests are managed sustainably. And it will allow licensees to leave the industry or to diversify their holdings if they wish, increasing industry's long-term viability and ability to provide stable jobs and revenue.

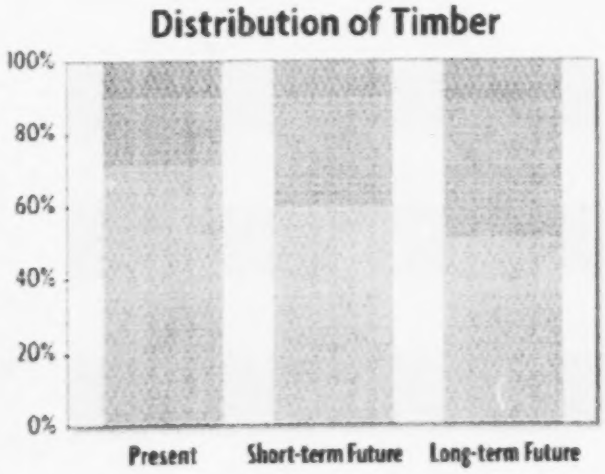
Building a healthier log market

A vibrant log market gives manufacturers – including the growing value-added sector – a reliable supply of the logs they need at competitive market prices, with no need to have tenure. Tenure holders also benefit by being able to focus on forest management and sell the logs they produce, rather than having to own processing facilities.

In B.C., government policies have limited the operation of log markets.

Changes to processing policies will play a key role in fostering the growth of the log market, as will reallocating a portion of existing tenures to new players that do not own manufacturing facilities.

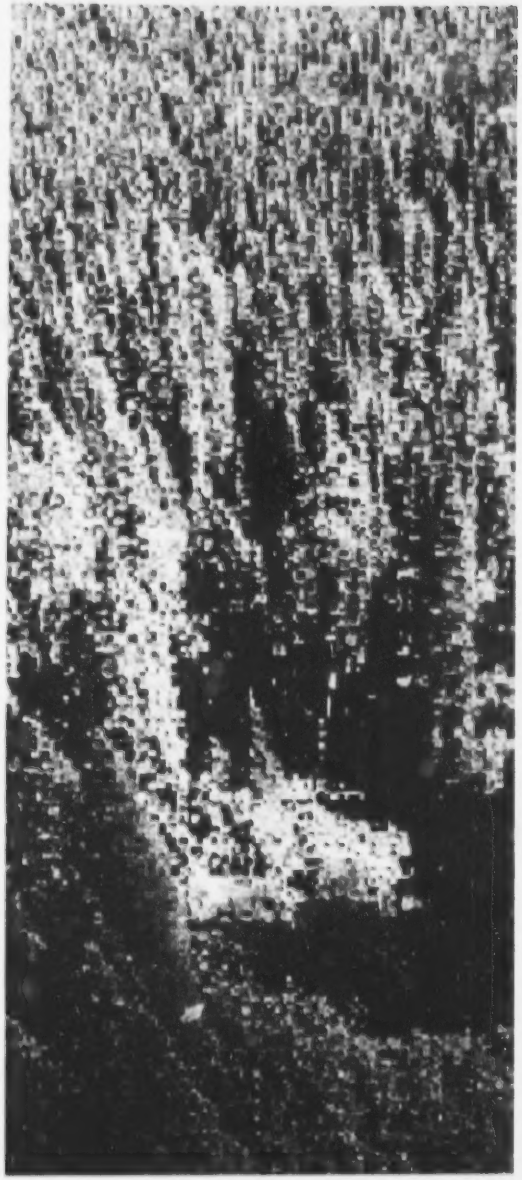
To make the log market work even better, the government is also planning to develop mechanisms for collecting and reporting data on log market transactions so that all market participants can be better informed of market conditions. In addition, the government intends to work with a variety of market participants to foster the development and adoption of new private-sector log trading mechanisms.



These charts show how the proposed changes will affect log markets.

Currently, more than 70 per cent of B.C.'s harvest is of Crown timber under long-term licence to major manufacturers. Immediately after the tenure reallocation, this will fall to about 60 per cent. In the longer run, with the elimination of the forced marriage of tenure and timber processing and with other policy changes, this will fall even further, perhaps to 50 per cent or less.

Most of the remaining wood will go through open markets of one description or another.



The price paid for timber by licensees and other users is called stumpage. Stumpage rates are currently based on hundreds of individual appraisals of timber stands, and take into account a number of factors affecting timber value. Unfortunately, this complex administrative process does not always respond efficiently to changing market conditions.

Sometimes stumpage is too high, increasing the cost of production and reducing the forest sector's viability. Sometimes rates are too low, encouraging inefficient and uneconomic logging and wasting a valuable public resource. In either case, British Columbians do not get the best possible returns for use of their forest resources.

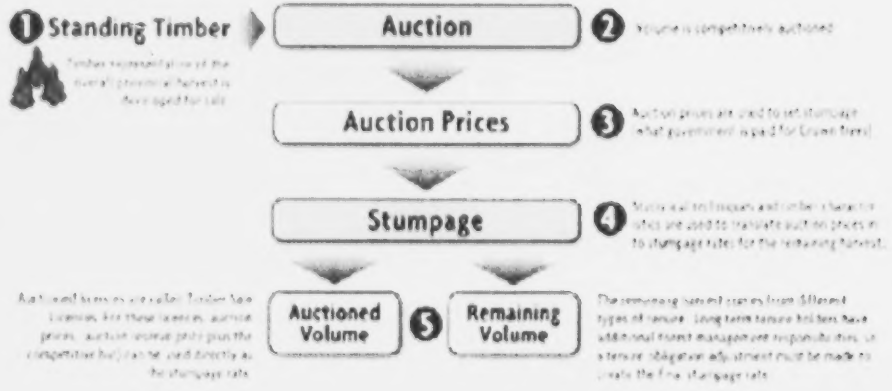
Action: Government will deliver on its New Era commitments to introduce a more market-based pricing system that reflects local harvesting costs and to eliminate what is known as the "waterbed" to create a fairer, more equitable system.

By reallocating some of the allowable annual cut that is held in large, replaceable tenures, government will sell about 20 per cent of Crown timber to the highest bidder. These auction prices will be used to determine stumpage rates on all public timber. Licensees' long-term tenure obligations like reforestation will then be taken into consideration.

Benefits: By sampling prices at auction, the Crown will obtain fair value for the public resource. And the revenues generated will pay for more improvements to health care, education and other key public services that contribute to stable, vibrant communities.

While the Crown's forest revenues will rise and fall with the market, government stumpage revenues will be maximized over the long term as the forest sector becomes more competitive.

Timber Auction Based Pricing

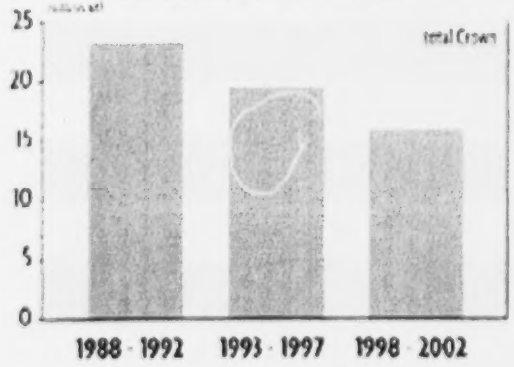


The coastal forest sector's performance has been well below potential since the mid-1990s. The average harvest level from public land over the past five years has been more than 20 per cent below the allowable annual cut – 16.5 million cubic metres, compared with the current allowable cut of 21.2 million cubic metres.

By comparison, over the same period, the Interior industry has generally harvested a volume of timber close to its allowable annual cut.

This gap on the Coast has cost coastal forest workers their jobs and reduced revenue for public services like health care and education.

Five-year Average Harvest Levels on Coastal Crown Land



Simple economics explains this gap: companies have not been able to harvest their full allowable annual cuts and cover their increasing costs, let alone sufficient return to allow reinvestment in modern plants and equipment.

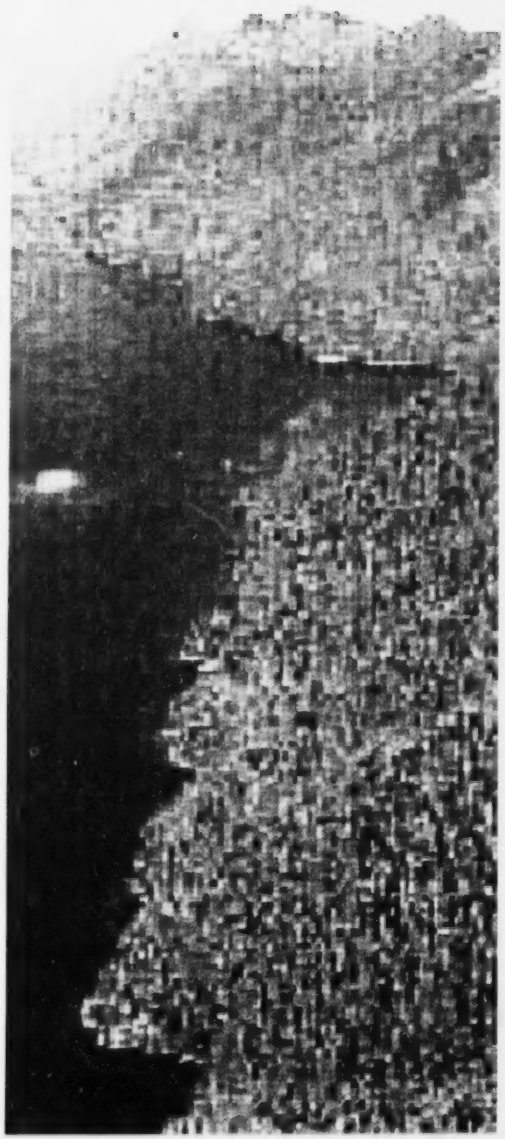
But what lies behind the unfavourable economics is more complex.

In a report commissioned by the Minister of Forests, natural resources economist Peter Pearse analysed the problems in the coastal industry. They include cost, ineffective regulation, aging plants and equipment, high costs of logging, underused capacity, a changing composition of timber supply and a stumpage system imperfectly grounded in economics.

Acknowledging these realities will begin the inevitable "rationalization" of the Coast. In other words, the Coast will begin the important task of overhauling the forest sector so that, in the long term, it can once again be a source of opportunity and prosperity for British Columbians.

The policy changes already detailed in this document will address many of these problems by opening the coastal industry to market forces, innovation and new entrants.

Two other policies are particularly relevant to the Coast, given the greater degree of restructuring necessary there: changing Bill 13, and helping forest workers and contractors through the transition to a new forest economy.



Bill 13

In 1991, government made amendments to the Forest Act, commonly known as Bill 13, in an attempt to protect the interests of independent contract loggers in British Columbia.

These loggers often invested heavily in equipment, but depended on major licensees for work. This dependency resulted in an imbalance in bargaining power during rate negotiations.

Bill 13 was intended to establish a more secure contractual relationship between the contractors and licensees by providing contractors with replaceable contracts and establishing a mechanism to settle rate disputes.

The intent was to develop a quick and inexpensive system for resolving contract disputes, and to indirectly contribute to the stability of contractors, their families and communities.

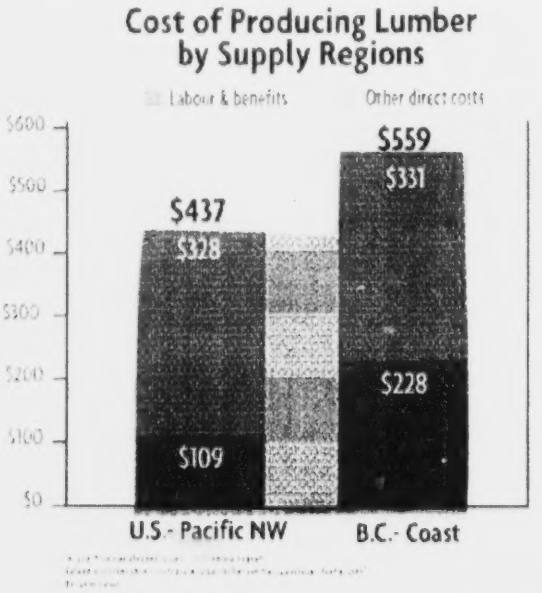
Today, Bill 13 is recognized as one of the most complex dispute resolution mechanisms in the province. Most of those who have used the arbitration process find it time-consuming and costly. It has failed to provide consistency in rate determinations.

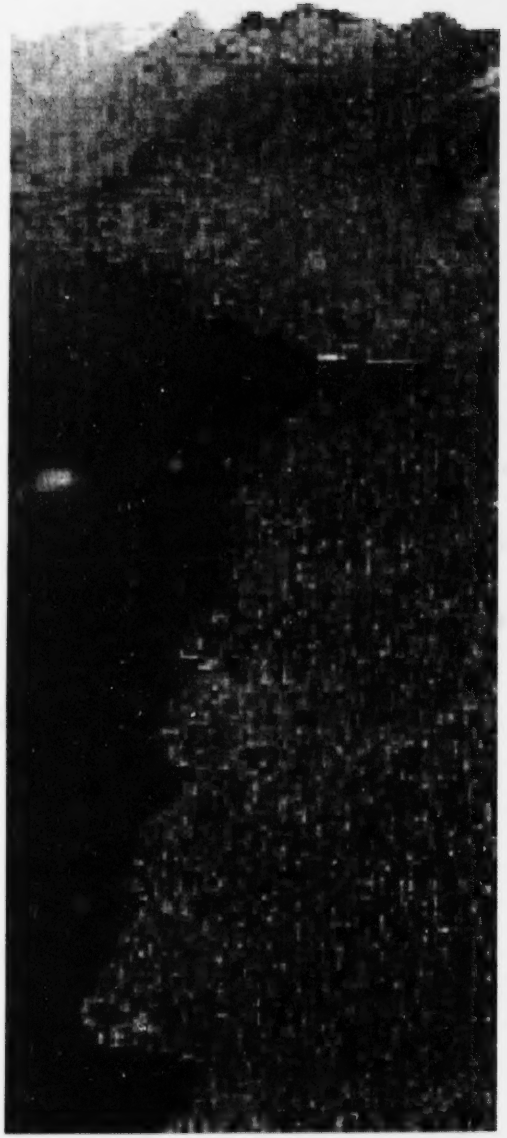
This inconsistency had profound effects on contract rates, and in the eyes of many, increased costs and reduced industry competitiveness.

Action: Government will work with contractors, licensees and arbitrators to:

- Simplify and streamline the dispute resolution process.
- Provide the clarity and direction necessary to ensure a consistent, market-based approach to rate-setting.

Benefits: The result will be a more efficient and effective dispute resolution process and more competitive contract rates. Over time, this will result in a more successful forest sector.





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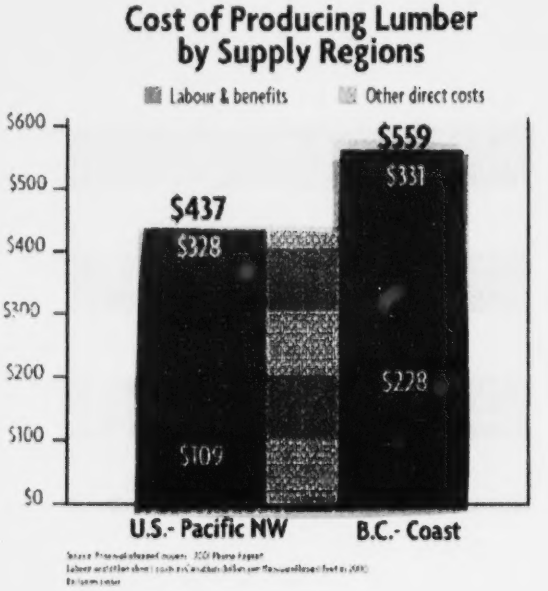


Helping forest workers and contractors through the transition

Some of the measures to be implemented, while necessary, will result in some painful dislocation. These changes will not always be easy for people who are caught in the transition from the old to the new, stronger forest economy, particularly on the Coast.

Action: The government will establish a $75-million trust fund. This fund will be managed by a board representing workers, contractors, forest companies and government.

Benefits: Funding is expected to be used to help forest workers and logging contractors through the transition. This will assist them and their families in planning for the future, while supporting the start of efforts to build a more economically sustainable, viable forest industry.

Like forest policy changes themselves, transition assistance will be available across the province. However, many of the benefits are expected to apply most strongly on the Coast, where the province's forest sector has experienced the most serious declines, and where the greatest adjustment may be necessary.

Opening Up New Markets

British Columbia relies on customers around the world to buy our forest products, from lumber, pulp and paper, to building products and finished goods. Without these sales, B.C.'s forest economy would stagnate.

Most of our exports go to only a few customers. About 70 per cent of lumber goes to the United States, while Japan is a major market for coastal forest products.

While we depend on the world, the world also depends on us. British Columbia contributes 12.5 per cent of the world's pulp exports, as well as 9.8 per cent of wood products. For this reason, B.C. is directly affected – for better or worse – by world events and trends in timber consumption.

In the last 10 years, trade disputes and weaknesses in B.C.'s traditional markets, along with new, aggressive, more cost-effective competitors, have cost us profits, jobs and revenues that support public services.

Diversifying our markets and expanding the demand for forest products generally will help B.C. weather fluctuations in demand and trade disputes, and allow us to take advantage of global demand, thus creating new jobs and opportunities at home.

To this end, government is acting on a New Era commitment to spend one per cent of direct forest revenues on marketing B.C.'s forest products and practices every year. In 2002-03, government allocated $12 million through the Forestry Innovation Investment program to promote B.C. forest practices, to support existing markets and to pursue new markets in China, Southeast Asia and other countries.

Marketing B.C.'s products

We must demonstrate the many benefits of B.C. forest products, including cost efficiency, safety, versatility, esthetics, and the fact that they come from a sustainably managed, renewable resource.

Action: The Forestry Innovation Investment program, frequently through projects that are cost-shared with industry, is working to make B.C. the forest products supplier of choice by building relationships with buyers, developers and governments around the world. Government's contribution helps provide focus and strategy to diverse industry marketing approaches, as well as a consistent identity for B.C. products in new markets.

Much attention has been focused on China, where the first Chinese building codes that permit wood use in construction are being introduced. Meanwhile, construction is booming, with 10 million housing starts in 2001. While B.C.'s exports to China are small, they are growing.

Marketing is being done in other countries too. For example, following a devastating earthquake in Taiwan in 1999, the government there is interested in building technologies that can minimize damage and loss of life. B.C. is part of a Canadian project that is working with the

Taiwanese government to address that country's high wind and seismic conditions.

In India, the Forestry Innovation Investment program is contributing to a partnership with the B.C. Wood Specialties Group, which represents secondary manufacturers. This supports a showroom in Mumbai, where Indian buyers can see wood and wood products used in a variety of residential and commercial projects.

Benefits: Success in new international markets will not come overnight. But diversifying our markets and increasing the demand for forest products will provide long-term growth for the forest sector that will mean a better future for every British Columbian.

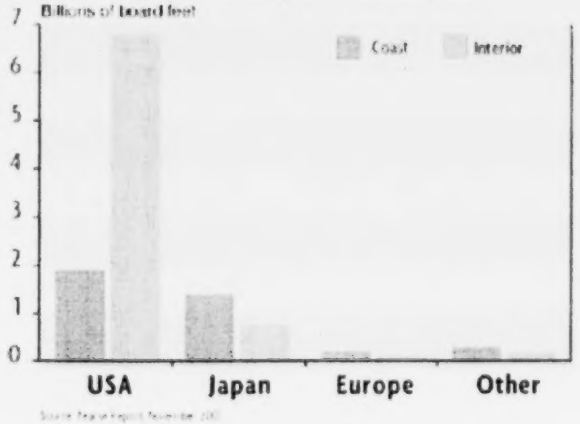
Marketing B.C.'s practices

Consumers around the world demand high quality, cost-effective forest products, but they also want to ensure that these products come from sustainably managed forests. British Columbia delivers both. This means British Columbia must promote not just our products, but our forest practices.

Action: The Market Outreach Network has been launched with the goal of communicating the facts about B.C.'s sustainable forest management around the world. The network is guided by a council representing forest communities, First Nations, industry and government.

Benefits: The B.C. Market Outreach Network's activities will support and build upon existing markets in Europe, Japan and the United States. They will also reach out to emerging markets to demonstrate the added value that our forest practices bring to the marketplace.

Lumber Export Markets



Conclusion: A Brighter Future

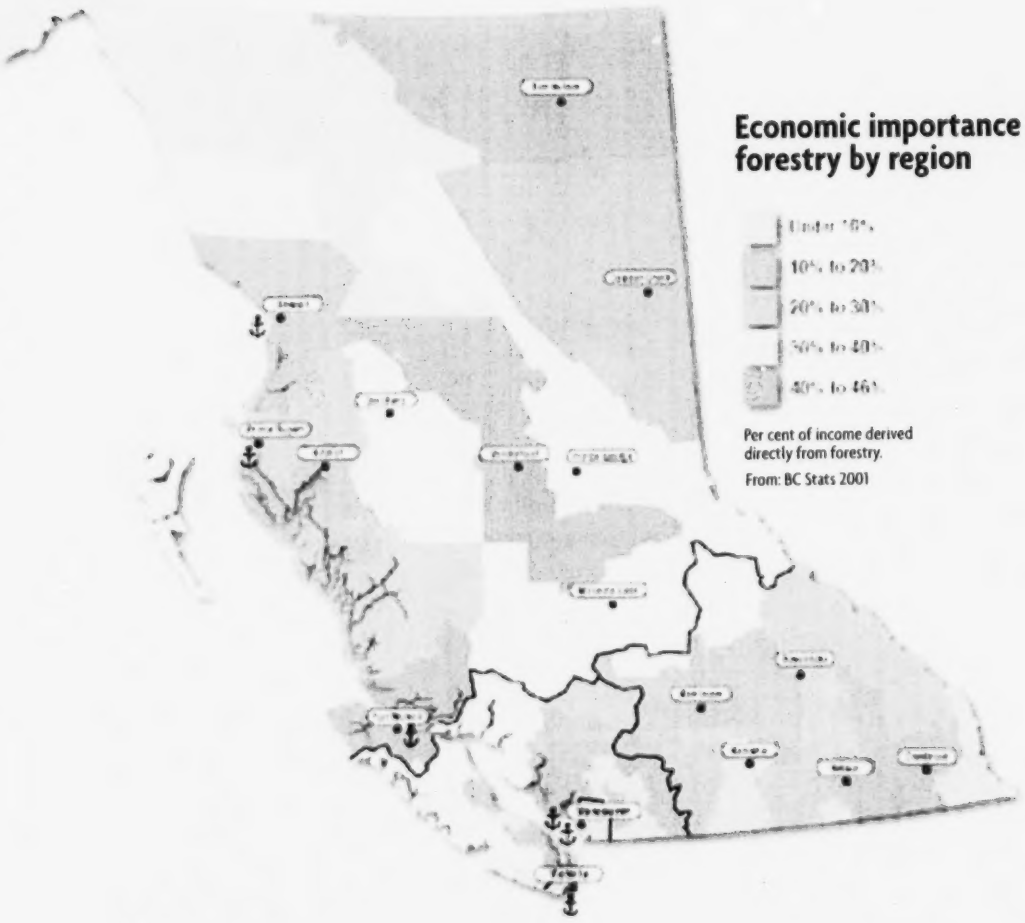
The problems that plague B.C.'s forest economy built up over several decades. It will take some time and concerted, dedicated commitment to resolve them. But the changes outlined in this document reflect a great deal of analysis and thought; they are being implemented only after extensive consultation with forestry stakeholders and serious, careful consideration of all the effects on the industry, workers, forest communities and the province as a whole.

Overall, this plan will create a forest sector that offers more opportunities for British Columbians – a renewed, more dynamic forest sector that opens up opportunity for First Nations, new entrepreneurs and B.C. communities, and that can create and capitalize on innovations and successes. There will be room for new operators who can create jobs and other benefits for forest communities and the entire province. British Columbia will be better prepared to respond to new market demands, allowing everyone in the province to benefit from a more prosperous, more globally competitive, stronger, revitalized forest economy in the longer term.

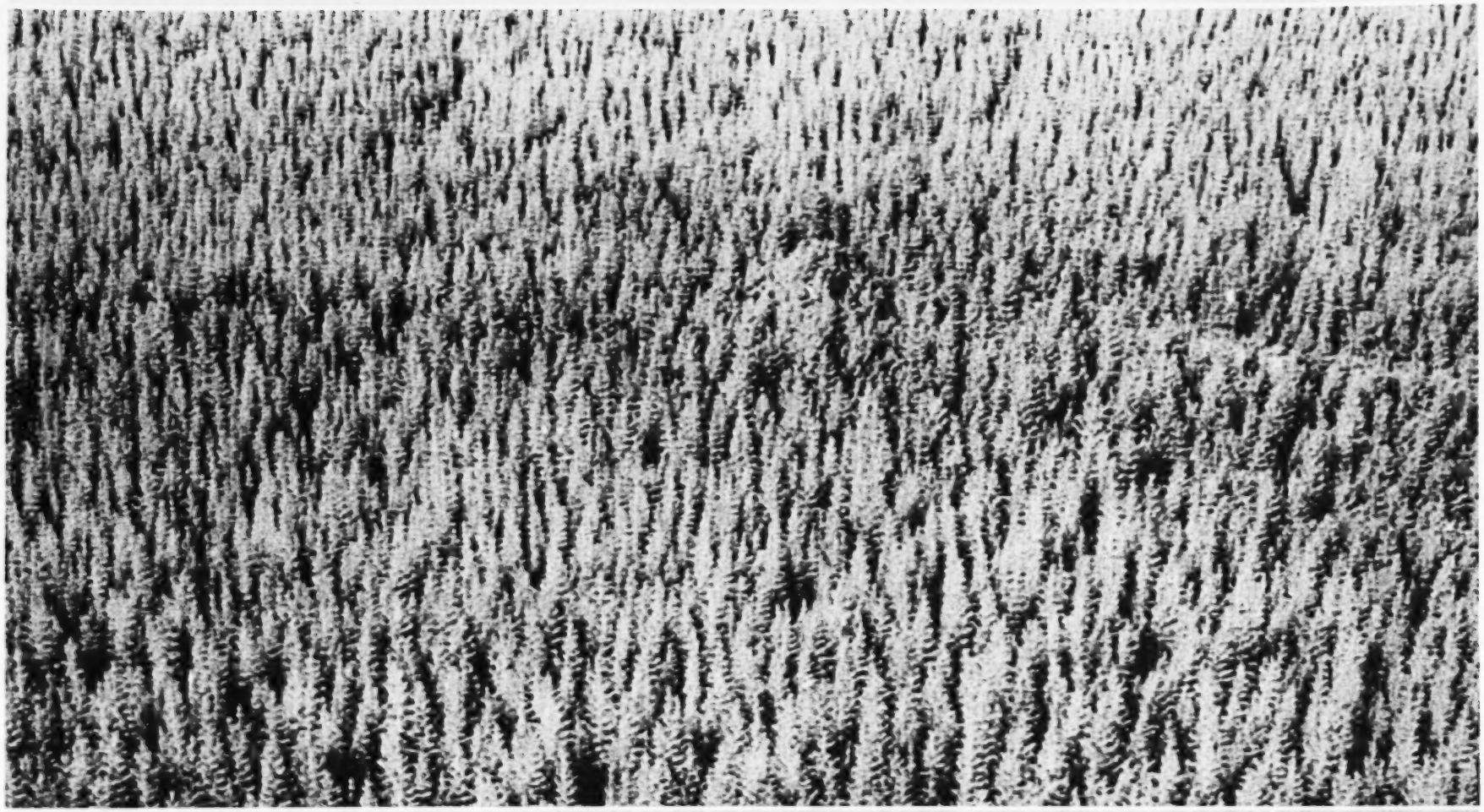
B.C. has abundant and productive forests, a skilled workforce, a proven commitment to sustainable forest management and the know-how and ingenuity to compete in global markets. The vast majority of our forests are in public hands, and government is now acting to manage them so they are environmentally and economically sustainable, for the benefit of all British Columbians.

The long-term picture is one of hope, prosperity and continued opportunity. By removing the shackles of yesterday's policies, we will do what is necessary to restore the B.C. advantage in a constantly changing world.

We will make sure the forests that provided wealth and security to our grandparents also provide the greatest possible benefits to us, and to future generations of British Columbians.


Economic importance of forestry by region
10% to 20%
20% to 30%
30% to 40%
40% to 46%
Per cent of income derived directly from forestry.
From: BC Stats 2001

Five billion trees planted
May 2002



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